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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

FOR THE PERIOD ENDED JUNE 30, 1992

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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

FOR THE PERIOD ENDED JUNE 30, 1992

TABLE OF CONTENTS

	Page
Appointive Officials	iii
Report Distribution	iv
Transmittal Letter	1
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Retained Earnings	3
Comparative Statement of Actual vs Budgeted Revenues and Expenditures	4
Notes to the Financial Statements	5

APPOINTIVE OFFICIALS

Zoann Attwood, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Ward Shanahan - Chairman	Helena	January 1, 1994
Becky Erickson	Glasgow	January 1, 1993
Bill Ware	Helena	January 1, 1993
Gary Rebal	Great Falls	January 1, 1994
Dwaine Iverson	Shelby	January 1, 1995

LOTTERY LIAISON COMMITTEE

Senator Bob Pipinich	Missoula
Senator Bernie A. Swift	Hamilton
Representative Linda Nelson	Medicine Lake
Representative Norman Wallin	Bozeman

REPORT DISTRIBUTION

According to Section 23-7-203(9), MCA, copies of this report must be distributed to the following individuals.

Stan Stephens, Governor

Bob Marks, Director, Department of Administration

Scott Seacat, Legislative Auditor

Joe Mazurek, President of the Senate

Hal Harper, Speaker of the House

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the Revenue Oversight Committee. In addition, the President of the Senate has requested this report be distributed to the Business and Industry Committee, the Education Committee, and the Finance and Claims Committee. The Speaker of the House has requested that this report be distributed to the specific members of the Business and Economic Development Committee and the Education and Cultural Resources Committee.

Members of the Revenue Oversight Committee are as follows:

Representative Dan Harrington	Senator Dorothy Eck
Representative Bob Gilbert	Senator Thomas E. Towe
Representative Marian W. Hanson	Senator Fred R. VanValkenburg
Representative Robert R. Ream	Senator Robert Brown
Representative Ted Schye	Senator Bruce D. Crippen
Representative Mike Foster	Senator Thomas O. Hager

Members of the Business and Industry Committee are as follows:

J. D. Lynch, Chairman	John "Ed" Kennedy, Vice Chairman
Betty Bruski	Eve Franklin
Delwyn Gage	Tom Hager
Jerry Noble	Gene Thayer
Bob Williams	

Members of the Education Committee are as follows:

Chet Blaylock, Chairman	Harry Fritz, Vice Chairman
Bob Brown	Bill Farrell
Swede Hammond	Dennis Nathe
Dick Pinsoneault	Mignon Waterman
William Yellowtail	

Members of the Finance and Claims Committee are as follows:

Judy Jacobson, Chairman	Greg Jergeson, Vice Chairman
Gary C. Aklestad	Tom Beck
Esther Bengtson	Don Bianchi
Gerry Devlin	Harry Fritz
Swede Hammond	Ethel Harding
Bob Hockett	Tom Keating
Dennis Nathe	Larry Stimatz
Larry Tveit	Eleanor Vaughn
Mignon Waterman	Cecil Weeding

Members of the Business and Economic Development Committee receiving the report are as follows:

Bob Bachini, Chairman	Sheila Rice, Vice Chairman
Bob Pavlovich	

Members of the Education and Cultural Resources Committee receiving the report are as follows:

Ted Schye, Chairman	Ervin Davis, Vice Chairman

Stan Stephens
Governor

Sandra Guedes
Director

September 4, 1992

Mr. Ward Shanahan, Chairman
Montana Lottery Commission
P. O. Box 1715
Helena, MT 59624

Dear Ward:

The Montana Lottery closed the Fiscal Year 1991/92 with **an impressive 17% increase in sales and a 33% increase in net revenues!** As we finalize our accounting, I am pleased to submit to you a financial report for the last quarter of what was indeed a good year for this organization.

The last quarter was marked by major changes in both on-line games: Powerball replaced Lotto*America and a second weekly drawing was added to Montana Cash. The additional Montana Cash drawing resulted in an increase in revenues of nearly $100,000 over the original estimate.

Every single one of the last four quarterly transfers exceeded $1 million, the first time since fiscal year '88 that a quarterly transfer reached the $1 million mark. When combined, the four quarters resulted in the following contributions to the programs funded by the Lottery:

Office of Public Instruction	$5,493,509.64
Board of Crime Control	$ 89,325.36
Total FY92 Transfers	$5,582,835.00

The credit for this strong performance belongs to the entire Lottery Team for their hard work and dedication, and is shared by you, whose guidance and support is critical to the success of the Lottery. **Congratulations!**

Sincerely,

Sandra Guedes
Director

BALANCE SHEETS
FOR THE QUARTERS ENDED JUNE 30, 1992 AND 1991
(UNAUDITED)

	Quarter Ended June 30, 1992	Quarter Ended June 30, 1991
Cash	$39,958	$574,805
Investment in Short–Term Investment Pool	1,407,200	400,800
Receivables (Net)	666,077	602,632
Inventories	140,671	173,921
Computer, Furniture & Equipment	706,407	762,715
Accumulated Depreciation	(476,579)	(418,704)
Intangible Assets	1,753	189,943
Prepaid Expenses	1,718	8,088
Employee Advances	5,000	5,000
Multi–State Receivable	571,823	542,809
TOTAL ASSETS	$3,064,028	$2,842,009
LIABILITIES AND FUND EQUITY:		
Liabilities:		
Accounts Payable and Accruals	$417,829	$410,903
Lottery Prizes Payable	1,029,071	994,758
Due to Other Funds	1,360,427	1,189,446
Deferred Revenue	104,000	19,629
Installment Purchase/Lease Payable	0	0
Compensated Absences Payable	126,424	99,549
Allowance for Ticket Returns	24,917	129,751
Total Liabilities	$3,062,668	$2,844,036
Fund Equity:		
Contributed Capital	1,360	0
Retained Earnings Unreserved	0	(2,027)
Total Fund Equity	1,360	(2,027)
TOTAL LIABILITIES AND FUND EQUITY	$3,064,028	$2,842,009

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PERIOD ENDED JUNE 30, 1992
(Unaudited)

	Quarter Ended June 30, 1992	Quarter Ended June 30, 1991	Twelve Months Ended June 30, 1992	TwelveMonths Ended June 30, 1991
REVENUES:				
Instant ticket revenue	$1,986,004	$2,134,019	$9,248,920	$8,170,377
Lotto*America/Powerball revenue	3,211,444	3,020,562	12,869,069	14,859,511
Montana Cash ticket revenue	1,699,734	901,490	5,803,950	901,490
License and permits	1,000	900	4,350	4,350
Interest earnings	27,376	14,887	95,184	40,423
Other income	0	0	0	0
Total Revenues	$6,925,558	$6,071,858	$28,021,473	$23,976,151
Cost of Ticket Revenue				
Instant ticket prize expense	($1,096,354)	(1,224,884)	(5,094,809)	(4,672,276)
On–line ticket prize expense	(2,307,887)	(1,659,019)	(8,456,198)	(6,986,546)
Retailer commission	(389,253)	(339,508)	(1,609,178)	(1,346,955)
Cost of tickets sold	(44,587)	(134,218)	(479,346)	(503,516)
On–line vendor fees	(936,057)	(863,997)	(3,741,749)	(3,539,506)
Net Operating Revenue	$2,151,420	$1,850,232	$8,640,193	$6,927,352
OPERATING EXPENSES:				
Advertising	$240,380	$201,374	$669,472	$622,030
Amortization	545	44,781	120,456	198,341
Audit Fees	4,140	10,731	49,109	58,711
Communications	14,308	21,499	75,121	73,970
Contractual Services	214,484	124,242	477,953	309,563
Depreciation	28,320	23,566	116,716	119,055
Management Service Fee	22,291	30,394	94,740	78,627
Multi–State Dues	11,228	0	44,268	33,807
Other	739	1,103	25,780	21,759
Personal Services	292,949	250,583	1,116,909	966,940
Repairs and Maintenance	19,464	18,673	76,936	77,878
Supplies and Materials	9,694	6,689	48,256	46,326
Travel	12,365	9,626	40,003	35,054
Utilities and Rent	23,273	16,546	95,180	96,536
Total Operating Expense	$894,180	$759,807	$3,050,899	$2,738,597
Operating Income	$1,257,240	$1,090,425	$5,589,294	$4,188,755
NONOPERATING EXPENSES				
Gain(Loss) on sale of Asset	(1,636)	0	(6,459)	9,761
Total Nonoperating Revenues (Expense)	(1,636)	0	(6,459)	9,761
Income before Operating Transfers	1,255,604	1,090,425	5,582,835	4,198,516
Operating Transfers In (Out)	(1,255,604)	(1,092,298)	(5,580,962)	(4,200,337)
NET INCOME (LOSS)	$0	($1,873)	$1,873	($1,821)
Retained Earnings, Beginning of Period (Note 6)			(1,873)	(52)
RETAINED EARNINGS, END OF PERIOD			$0	($1,873)

The accompanying notes are an integral part of these financial statements.

COMPARATIVE STATEMENT OF ACTUAL VS. BUDGETED REVENUES AND EXPENDITURES
PERIOD ENDED JUNE 30, 1992
(Unaudited)

	Budgeted Fiscal Year July 1, 1991 – June 30, 1992	Actual Twelve Months Ended June 30, 1992	Actual as a Percent of Budget (%)
REVENUES:			
Instant ticket revenue	$9,000,000	$9,248,920	102.77
Lotto*America/Powerball revenue	11,295,000	12,869,069	113.94
Montana Cash revenue	5,707,000	5,803,950	101.70
License and permits	4,000	4,350	108.75
Interest earnings	68,000	95,184	139.98
Other income	0	0	N\A
Total Revenues	$26,074,000	$28,021,473	107.47
EXPENSES:			
Prizes – instant ticket	4,960,800	5,094,809	102.70
Prizes – on–line games	7,650,900	8,456,198	110.53
Retailer commissions	1,525,100	1,609,178	105.51
Ticket cost – instant games	520,000	479,346	92.18
Ticket cost – on–line games	3,416,748	3,741,749	109.51
Total Cost of Ticket Revenue	$18,073,548	$19,381,280	107.24
Advertising	$642,596	$669,472	104.18
Amortization	189,944	120,456	63.42
Audit Fees	60,000	49,109	81.85
Communications	73,867	75,121	101.70
Contractual Services	367,915	477,953	129.91
Depreciation	118,000	116,716	98.91
Management Service Fee	97,789	94,740	96.88
Multi–State Dues	33,040	44,268	133.98
Other	22,204	25,780	116.11
Personal Services	1,115,045	1,116,909	100.17
Repairs and Maintenance	84,356	76,936	91.20
Supplies and Materials	52,136	48,256	92.56
Travel	39,446	40,003	101.41
Utilities and Rent	94,998	95,180	100.19
Total Operating Expenses	$2,991,336	$3,050,899	101.99
Gain(Loss) on Sale of Assets	N/A	(6,459)	N/A
NET REVENUE	$5,009,116	$5,582,835	111.45

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
For the Period Ended June 30, 1992

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and prepare financial reports.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery instant ticket sales are recorded as revenue based on ticket deliveries to the retailers. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Lottery on-line ticket sales are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Free Tickets. The Montana Lottery's instant games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free tickets distributed approximated $267,496 for the quarter ended June 30, 1992.

Instabucks. Instabucks are a Lottery coupon good, upon redemption, for a lottery ticket. Instabucks, used to stimulate lottery ticket sales, are usually given away for promotions, retailer clerk incentive programs, and advertising trade-outs. The lottery tickets distributed resulting from Instabuck redemptions are reflected as a reduction in revenue. The related prize expense and ticket cost are reclassified as an advertising expense. For the quarter ended June 30, 1992, Instabuck redemptions resulted in a revenue reduction of $36,803 and a prize expense reclassification of $20,218.

Prizes. Expenses for instant prizes are recorded based on the predetermined prize structure for each game. No prize expense is recorded for free tickets distributed.

Expenses for on-line prizes are recorded based on the predetermined prize structure for the on-line game.

2. SUMMARY OF ACCOUNTS

Investment in Short-Term Investment Pool. The Short-Term Investment Pool (STIP) is a pool of investments, maintained by the Montana Board of Investments, with maturities of one year or less. The Lottery's purchase of units in STIP totalled $1,407,200 as of June 30, 1992. These funds are highly liquid and may be purchased or sold daily. Interest earnings accrue daily and income is distributed monthly. STIP interest earnings for the quarter ended June 30, 1992 totalled $14,561. Interest earnings for the year ended June 30, 1992 totalled $45,699.

Receivables. Receivables totalling $666,077 represent amounts owing the Lottery for purchased tickets. An allowance for doubtful accounts has been established based on

historical perspective. As of June 30, 1992 the allowance had an account balance of $985.

Receivables include a $1,405 adjustment in retailer commissions related to estimated ticket returns.

Inventories. Inventories consist of merchandise, Instabuck and supplies inventories. Merchandise inventory includes lottery tickets valued at $115,629 stored in the warehouse and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold when sold. After game end and awaiting disposal, unsold tickets are charged to cost of tickets sold.

Merchandise inventory includes a $1,062 adjustment related to estimated ticket returns.

Supplies inventories include paper supplies, ticket dispensers, premiums and point-of-sale materials having an initial value of $5,000 or more. At quarter end, supplies inventories totaled $25,042. These inventories are also recorded at cost using the specific identification method.

Due to Other Funds. The account "Due to Other Funds" totalling $1,360,427 reflects $1,235,514 payable to the State Superintendent of Public Instruction and $20,090 payable to the Board of Crime Control for the period ended June 30, 1992 and $104,823 due to other state agencies for services rendered prior to the quarter ended June 30, 1992.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's payable for compensated balances is detailed below.

Balance June 30, 1991	Net Leave Earned/Used	Balance June 30, 1992
$99,549	$26,875	$126,424

Allowance for Ticket Returns. This allowance represents a liability as of June 30, 1992 for estimated ticket returns. This is an estimate based, partially, on actual returns received after the end of the quarter. The allowance for ticket returns was increased by $7,131 from the quarter ending March 31, 1992. Conversely, ticket revenue has been decreased by approximately $7,131 for the quarter ended June

30, 1992. Prize expense has been decreased by approximately $4,120. Commissions and cost of goods sold have also been decreased for expenses associated with this change in allowance.

Contributed Capital. The Lottery was given a mid-size pickup by another state agency. This vehicle was booked at the fair market value of the pickup.

Commissions. Section 23-7-301(10), MCA provides retailers a commission on instant and on-line tickets or chances sold. The Lottery commission established this commission at 5% of the face value of instant tickets delivered to the retailers and on the amount of tickets sold for each on-line drawing. The commission on tickets sold to the retailers gives the retailer $15 per book of 300 tickets and 5 cents for each on-line ticket sold. For the quarter and twelve months ended June 30, 1992, commissions totaled $389,253 and $1,609,178 respectively.

Retailers can receive bonus commissions on tickets sold based on incremental sales of instant tickets. During the quarter and twelve months ended June 30, 1992, retailers earned bonus commissions totaling $21,806 and $133,887.

Amortization. The Instant Lottery System (ILS) software, classified as an intangible asset, is being amortized over a period of five years using the straight line method. The Media Drop-In Productions, Inc. contract for the use of ten lottery advertisements, is also classified as an intangible asset. This contract is being amortized over a period of 3 years using the straight line method. Both were fully amortized in the third quarter of fiscal year 1992.

Gain(Loss) on Sale of Assets. The balance of this account is the net loss recorded due to the sale or disposal of Lottery vehicles, Commerce computer system write-off and other assets.

2. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, media production. Materials include ticket dispensers. The cost of these services and materials are detailed below for the fiscal year ending June 30, 1992:

Marketing services (including media placement, creative design and layout, printing and media production)	$270,026
Ticket Dispensers	12,345

3. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the fiscal year ending June 30, 1992:

Audit Fees	$ 49,109
Payroll Processing Fees	1,914
Insurance	5,914
Computer Fees	6,363
Records Retention Fees	844
Printing	68,791
Supplies and Materials	3,631
Mail Processing Fees	28,955
Telecommunications	32,943
Vehicle Rental Fees	4,980
Management Service Fees	94,728

4. PAID PRIZES

Section 23-7-402 MCA states "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". From April 1, 1992 through June 30, 1992 prizes paid are detailed as follows:

High-tier	$ 196,515
Low-tier	858,241
On-line	2,510,500
	$ 3,565,256

From July 1, 1991 through June 30, 1992 prizes paid are detailed as follows:

High-tier	$ 643,660
Low-tier	4,377,670
On-line	8,601,073
	$13,622,403

High-tier prizes reflect instant ticket prizes greater than $50 paid through Lottery headquarters. Low-tier prizes of $50 or less are paid by the retailer or Lottery headquarters.

Prize expense is recorded based on the predetermined prize structure percentage for each game. For the quarter ended June 30, 1992, the prize expense of $3,404,241 is 49.36% of net Lottery ticket revenue of $6,897,182. For the twelve months ended June 30, 1992, the prize expense of $13,551,007 is 48.53% of net Lottery ticket revenue of $27,921,939.

When recording the prize expense, a corresponding liability for high-tier prizes is also recorded. The relationship between prize expense, prizes paid and the change within prize liability is illustrated below:

April 1 through June 30, 1992		Percent of Net Lottery Ticket Revenue (Unaudited)
Prizes paid	3,565,256	51.69
Instabucks	(20,218)	(.29)
Increase (decrease) in prize liability	(140,797)	(2.04)
Prize expense	$ 3,404,241	49.36

July 1 through June 30, 1992		Percent of Net Lottery Ticket Revenue (Unaudited)
Prizes paid	13,622,403	48.79
Instabucks	(105,709)	(.38)
Increase (decrease) in prize liability	34,313	.12
Prize expense	$ 13,551,007	48.53

5. TRANSFER TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION AND BOARD OF CRIME CONTROL

Section 23-7-402(3), MCA states "that part of all gross revenue not used for payment of prizes, commissions, and operating expenses is net revenue except for the amount required to be paid under subsection (5) net revenue and must be paid quarterly from the enterprise fund to the State Superintendent of Public Instruction for distribution as equalization aid to the public schools of Montana..." Section 23-7-410(5) MCA states "For the fiscal year beginning July 1, 1991, 1.6% of the net revenue derived under subsection (3) must be paid quarterly to the Board of Crime Control." For the quarter ended June 30, 1992, the net revenue payable to the State Superintendent of Public Instruction totalled $1,235,514 and the net revenue payable to the Board of Crime Control totalled $20,090.

6. DEFICIT RETAINED EARNINGS

According to the law, the Lottery's net revenue must be transferred quarterly to the State Superintendent of Public Instruction. This transfer should result in a zero retained earnings balance. Because of recording a fiscal year 1990-1991 expenditure after calculation of the transfer for the quarter ending June 30, 1991, the beginning retained earnings balance is ($1,873) rather than zero.

7. MULTI-STATE LOTTERY RECEIVABLE

As a member of the Multi-State Lottery Association (MUSL) and the POWERBALL game, the Lottery is required to contribute to a prize reserve fund maintained by MUSL. This fund is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund, as well as the interest earned on the Lottery's share of the fund, would be returned to the Lottery upon leaving MUSL (assuming that no unanticipated prize claims have been paid).

The Lottery contributes to the reserve fund through the 50% set-aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve fund accumulated since the start of the POWERBALL game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game. Contributions to this fund total $524,364, interest earnings equal $47,459 for a total of $571,823 as of June 30, 1992.

8. GAMES

Currently, the Montana Lottery games are instant ticket games and two on-line games referred to as POWERBALL and Montana Ca$h. Instant ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize. The POWERBALL game allows players the chance to win a minimum pari-mutual jackpot of $2 million. A player must match all 6 numbers to win the jackpot, players win prizes ranging from $1 to $100,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Montana Ca$h game allows players the chance to win a minimum pari-mutual jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5.00 and 4 of 5 wins $200. The drawing is held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

9. GAMING SUPPLIER CONTRACTS

Tickets. On March 9, 1991, the Montana Lottery entered into a one year contract with Dittler Brothers, Inc. to purchase lottery tickets.

The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure. The contract requires payment within 30 days of ticket receipt.

Dittler Brothers, Inc., as the vendor, delivered a $500,000 performance bond covering the contract term. The Company also provided an errors and omissions policy covering an ultimate net loss of $4,500,000.

This contract may be terminated when termination is in the best interest of the Lottery with proper notification to Dittler Brothers, Inc.

Computer Hardware and Software. The Lottery contracted with Scientific Games, Inc. on February 25, 1987, to purchase a used Stratus computer. The computer hardware and software cost $381,243. This contract also covered the acquisition of an Uninterruptable Power Supply (UPS) system for $40,551. The UPS system protects the computer against electrical power surges and failures.

The Lottery signed a separate agreement with Stratus Computer, Inc. on June 2, 1987, for maintenance of the Stratus computer hardware and software. Monthly maintenance totals $5,041.

On July 28, 1987, the Lottery signed a second agreement with Stratus Computer, Inc. regarding the Stratus software license. Under this contract, Stratus Computer, Inc. grants the Lottery a "nonexclusive, nontransferable license" to use the software of the Stratus computer. The proprietary rights and title of the software remain with Stratus Computer, Inc.

Lottery Software. On February 25, 1987, the Lottery agreed to purchase the Instant Lottery System (ILS) software package for $840,400. This agreement provides the Lottery a "perpetual, nonexclusive, nontransferable license to use the software solely for the Lottery's own use". The contract allows the Lottery to make 36 monthly payments of $23,344.44 with no interest. The first payment was due June, 1987.

Under the Extension and Second Amendment of Instant Ticket Contract dated January 5, 1989, these monthly payments were reduced to $11,672.22 commencing with the November 1988 payment. Upon expiration or termination of the Instant Ticket Contract with Scientific Games, Inc. on March 8 1990,

the payments were reinstated to $23,344.44 until the balance was paid in full.

On-line Services. On August 30, 1989, the Lottery contracted with Control Data Corporation to provide on-line terminals, central computers, telecommunications network, and training for a five year period. The contract, with an effective date of November 9, 1989, provides that payment will be a percentage of sales, which for the first year of the contract will be 25% of the first $250,000 of weekly sales, and 19% for sales between $250,001 to $500,000. The percentage decreases with higher weekly sales.

On November 9, 1991, the Lottery and Control Data Corporation entered into the third year of the on-line contract. Payment during the third year of the contract is based on 19% of the first $750,000 of weekly sales. This percentage decreases with higher weekly sales.

On May 22, 1992, the Lottery agreed to the assignment of its contract with Control Data Corporation to Automated Wagering International, Inc. Automated Wagering delivered a $2,280,000 performance bond covering the third year of the contract term.

10. PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totalling $5,000,000. The Lottery made the initial payments to the winners in the amount of $253,088 and on September 26, 1988, the Montana Lottery awarded annuities in the amount of $2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of June 30, 1992, the contingent liability for future prize payments funded through the purchase of annuities was $3,734,559.

11. LOTTO*AMERICA/POWERBALL JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL game are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the anniversary date of the win.

On January 13, 1990, the Montana Lottery awarded its first Lotto*America jackpot prize totalling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990, the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual

payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totalling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totalling $2,000,000. The first annual payment of $100,000 was made on Aprl 27, 1992.

As of June 30, 1992, the contingent liability for future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds was $57,165,000.